

Ellerston Australian Micro Cap Fund

Performance Report | October 20

PERFORMANCE SUMMARY

Performance	1 Month	3 Months	6 Months	1 Year	3 Year p.a.	Since Inception (p.a.)
Net [^]	2.37%	9.14%	35.47%	22.96%	17.55%	22.95%
Benchmark*	0.46%	4.69%	15.10%	-2.40%	4.63%	6.99%
Alpha	1.91%	4.45%	20.37%	25.36%	12.92%	15.96%

Source: Ellerston Capital

[^] The net return figure is calculated after fees & expenses. Past performance is not a reliable indication of future performance

* S&P/ASX Small Ordinaries Accumulation Index

COMMENTARY

In October, the Ellerston Australian Micro Cap Fund outperformed the Small Ordinaries Accumulation Index by 1.9%. Like September, October was a volatile month for the market with it truly being split into two halves. In the first two weeks of trading the market rallied over 5% supported by the Federal Budget which was handed down containing significantly more fiscal stimulus than anticipated by the market as well as further tax cuts for households. However, in the back half of the month the market rolled giving up most of its gains on renewed fears around COVID-19 and lockdowns (or talk of potential lockdowns) in Europe and the UK.

October also saw the start of AGM season which this year has become closer to a mini reporting season given the current environment. As expected we saw a lot of companies provide 1Q21 trading updates and unsurprisingly very few management teams provided FY21 guidance. The most mixed sector was Consumer Discretionary. We saw names like Temple & Webster, SuperCheap, MarleySpoon and ARB Corp to name a few provide exceptionally strong 1Q trading updates, however, as we have been alluding to in past newsletters we were questioning when the market would weigh up strong trading updates against questions on whether the elevated levels of sales would be sustainable when stimulus rolls off. Our question started to be answered in October as some of these names rolled aggressively. Financials was the strongest performing sector, up 5.5% over the period, helped along by Steadfast, HUB24 Limited and Virgin Money UK.

One stock we added to the portfolio this month was Aussie Broadband (ABB AU). ABB is one of the fastest growing Retail Service Providers in Australia and IPO'd on the 16th October. ABB provides a range of telco product and services that include residential and enterprise broadband, entertainment, fibre, mobile and telephony services. We participated in the IPO at \$1.00 per share with capital raised to fund further investments particularly into further dark fibre projects. We bought additional stock on market, building ABB into a core portfolio holding as we are highly attracted to ABB's organic growth profile (adding 44.1k net subs in 4Q20) and growing revenue by 90% CAGR from FY18 to FY21 as well as its ability to take market share from incumbents. We believe longer term, ABB will continue to win market share and has multiple legs of growth including 1) further entry into direct fibre connectivity for customers; 2) cross sells and upsells like further mobile deals; 3) further investment in infrastructure; 4) further expansion onto other networks like OptiComm (a stock we also own) and 5) accretive acquisitions. ABB closed the month up 83% at \$1.83 per share.

Another stock that provided a solid 1Q trading update is RightCrowd (RCW AU) which we hold as a prospect position. RCW provides physical security, safety and compliance software. RCW's software sits between the core business system (SAP etc) and the physical access control (swipe card, face recognition etc) and enables them to talk to each other in a more intelligent and dynamic fashion, for global Fortune 50 companies. In 1Q21 RCW delivered annualised recurring revenue (ARR) of \$5.5m up 39% QoQ and reiterated its FY21 target for sales growth (recurring revenue and service revenue) to exceed 40% on FY20. Management also reiterated its target of "at least" doubling ARR by the end of FY21. This would see RCW delivering ARR of greater than \$8m on an enterprise value of \$48m. We believe post R&D grants and cash inflows in 2Q21 from accounts receivable RCW is well funded to deliver on its growth targets and to potentially outperform expectations.

Regards

David Keelan & Alexandra Clarke

Investment Objective

To provide investors with long term capital growth via investing in a portfolio of quality Australian & New Zealand Micro Cap companies. The Fund aims to outperform the S&P/ASX Small Ordinaries Accumulation Index over the medium to long term.

Investment Strategy

The Fund employs an active, research-driven investment approach which seeks to identify and invest in companies that are believed to have the potential to deliver significant upside over the medium term and where there is a reasonable margin of safety to mitigate downside risk. Positions are actively managed within the Fund.

Key Information

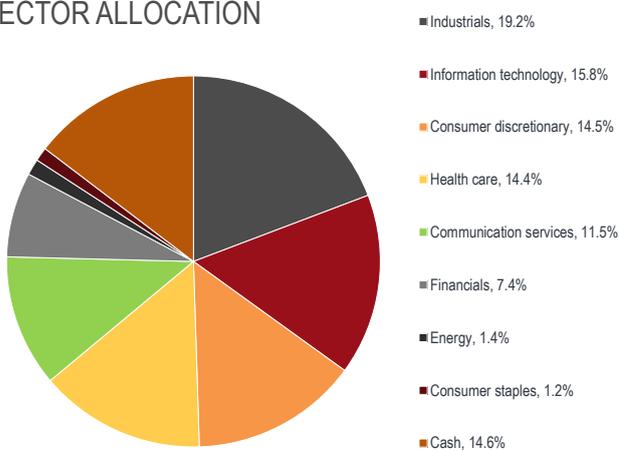
Strategy Inception	1 May 2017
Portfolio Manager	David Keelan & Alexandra Clarke
Application Price	\$1.7519
Net Asset Value	\$1.7475
Redemption Price	\$1.7431
Liquidity	Daily
No Stocks	44
Management Fee	1.20%
Performance Fee	20%
Buy/Sell Spread	0.25%/0.25%

PORTFOLIO CHARACTERISTICS

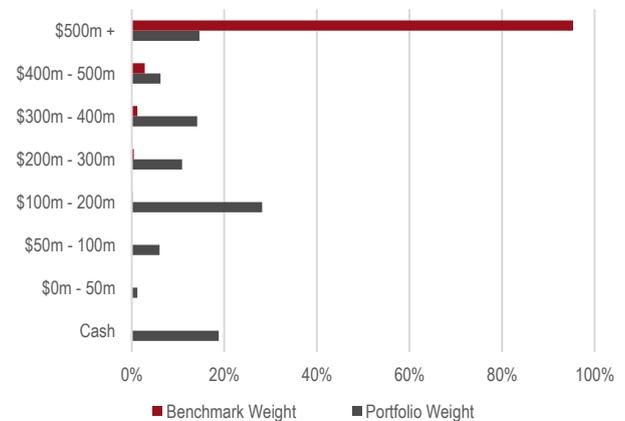
KEY PORTFOLIO METRICS

FY20e	Fund	Benchmark
Price/Earnings	19.8x	18.3x
Dividend Yield	1.8%	3.7%
Net Debt/EBITDA	0.2x	2.2x

SECTOR ALLOCATION



MARKET CAPITALISATION



All holding enquiries should be directed to our registrar, **Link Market Services** on **1800 992 149** or ellerston@linkmarketservices.com.au

Should investors have any questions or queries regarding the Fund, please contact our **Investor Relations team** on **02 9021 7701** or info@ellerstoncapital.com or visit us at <https://ellerstoncapital.com/>

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